UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

FILED NOV - 4 2003 In This Office Clerk U. S. District Court Greensboro, N. C. By

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WALTER JOHN TAYLOR, derivatively on behalf of Cree, Inc.,	:	03-CVS-
Plaintiff,	:	**VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT**
-against-	:	
F. NEAL HUNTER, CHARLES M. SWOBODA JOHN M. PALMOUR, DOLPH W. VON ARX, JAMES E. DYKES, WILLIAM J. O'MEARA and ROBERT J. POTTER,	:	JURY TRIAL DEMANDED
		1:03CV01045
Defendants,	:	
-and-	:	
CREE, INC.,	:	
Nominal Defendant.	:	

Plaintiff, by his attorneys, alleges for his derivative complaint, upon personal knowledge as to himself and his own acts, and upon information and belief derived from, *inter alia*, a review of documents filed with the Securities Exchange Commission ("SEC") and publicly available news sources, such as newspaper articles, as to all other matters, as follows:

JURISDICTION AND VENUE

1. This action asserts Federal Rule of Civil Procedure 23.1 derivative claims on behalf of Cree, Inc. ("Cree" or the "Company"). This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1332 because the amount in controversy exceeds $75,000, exclusive of interest and costs, and the dispute is between citizens of different states. Venue is proper in this judicial district pursuant to 28 U.S.C.

§ 1391 because Cree, the nominal defendant on whose behalf this action is brought, is headquartered and located at 4600 Silicon Drive, Durham, North Carolina, within this District, and because many of the acts alleged and complained of occurred in this District.

NATURE OF THE ACTION

2. This is a shareholder derivative action brought by a shareholder of Cree, Inc., on behalf of nominal defendant Cree, pursuant to Federal Rule of Civil Procedure 23.1.

3. Plaintiff alleges that defendants have violated their duties, including their duties of loyalty and care to Cree, by, *inter alia,* knowingly and/or recklessly making, or acquiescing in making, numerous false and misleading statements between August 19, 1998 and June 13, 2003 (the "Relevant Period") which were designed to and did in fact artificially maintain the price of Cree stock. Certain of the defendants then used the opportunity created by this artificial maintenance of Cree's share price to personally profit at the expense of Cree and its public shareholders, by, *inter alia*, selling millions of dollars worth of Cree stock which they had previously held. The other defendants used this opportunity to maintain themselves in their lucrative positions at Cree and to enhance their reputations as suitable directors and business partners. As a result of the misfeasance alleged above, Cree has suffered irreparable harm, including, but not limited to, the costs of responding to numerous shareholder class action lawsuits, and substantial harm to its name and reputation caused by unflattering publicity both in this country and throughout the world.

PARTIES

4. Plaintiff, Walter John Taylor, a citizen of the State of New York, owns stock in Cree and has owned stock in Cree at all relevant times.

5. Nominal Defendant Cree is a North Carolina corporation headquartered at 4600 Silicon Drive, Durham, North Carolina 27703. Cree is a leader in the development and manufacture of silicon carbide, which is the base material used in the fabrication of the Company's blue light emitting diodes (LEDs), wafers, and gemstone materials.

6. Defendant, F. Neal Hunter ("Hunter"), is a founder of the Company and has served as a director of Cree since its inception in 1987 and as Chairman since 1995. Defendant Hunter is believed to be a citizen of North Carolina. During the Relevant Period, ***Defendant Hunter sold 863,000 shares of Cree stock into the inflated market created by the defendants, for proceeds of approximately $27.9 million.***

7. Defendant, Charles M. Swoboda ("Swoboda"), is President and Chief Executive Officer of the Company and has served as a director of the Company since October 2000. Defendant Swoboda is believed to be a citizen of North Carolina. During the Relevant Period, ***Defendant Swoboda sold 180,000 shares of Cree stock into the inflated market created by the defendants, for proceeds of approximately $4.7 million.***

8. Defendant, John W. Palmour ("Palmour"), is a founder of the Company and has served as a director of Cree since 1995. Palmour is believed to be a citizen of North Carolina. During the Relevant Period, ***Defendant Palmour sold 242,000 shares of Cree stock into the inflated market created by defendants, for proceeds of approximately $8.7 million.***

9. Defendant, Dolph W. von Arx, has served as a director of Cree since October 1991. Defendant von Arx is believed to be a citizen of Florida. During the Relevant Period, ***Defendant von Arx sold 227,324 shares of Cree stock into the inflated market created by defendants, for proceeds of approximately $9.8 million.***

10. Defendant, James E. Dykes, has served as a director of the Company since January 1992. Dykes is believed to be a citizen of Louisiana or Florida and not a citizen of New York. During the Relevant Period, ***Defendant Dykes sold 62,000 shares of Cree stock into the inflated market created by defendants, for proceeds of approximately $2.7 million***.

11. Defendant, William J. O'Meara, has served as a director since October 2000. Defendant O'Meara is believed to be a citizen of a state other than New York.

12. Defendant, Robert J. Potter, has served as a director since April 2001. Defendant Potter is believed to be a resident of Texas.

13. The defendants identified in paragraphs 6 through 12 are hereinafter sometimes referred to collectively as the "Individual Defendants." Further, defendants Hunter, Swoboda and Palmour are hereinafter sometimes referred to collectively as the "Officer Defendants." By reason of their positions as officers and/or directors of Cree and because of their ability to control the business and corporate affairs of Cree at all relevant times hereto, Defendants were required to exercise reasonable and prudent supervision over the management, policies, practices and controls of the financial affairs of Cree. As such, the Defendants were required, among other things, to:

a. Manage, conduct, supervise and direct the business affairs of Cree in accordance with applicable state and federal law and the charter and bylaws of Cree;

b. Neither violate nor permit any officer, director, agent or employee of Cree to violate applicable state laws, federal laws, rules, regulations or Company charter or bylaws;

c. Establish and maintain systematic and accurate books and records of the business and affairs of Cree and procedures for the reporting of the business and affairs to the Board of Directors;

d. Periodically investigate, or cause independent investigation of said books and records;

e. Maintain and implement an adequate and functioning system of internal financial and accounting controls, such that Cree's financial statements and information would be accurate;

f. Exercise reasonable control and supervision over the public statements made and/or issued to the securities markets relating to Cree; and

g. Remain informed as to the status of Cree's business, conditions, practices and operations and, upon receipt of notice or information of imprudent or unsound practices or operations, to make a reasonable inquiry in connection therewith, and to take steps to correct such practices or operations and make such disclosures as are necessary to comply with state and federal securities laws

14. The Individual Defendants, because of their positions of control and authority as directors and/or officers of Cree, were able to and did, directly and indirectly, control the improper and wrongful acts complained of herein, as well as the contents of the various public statements issued by the Company. Because of their advisory, executive, managerial and directorial positions with Cree, each of the Individual Defendants was a controlling person of the Company and participated in the preparation and/or dissemination of the statements alleged to be false and/or misleading. Each Individual

Defendant had access to the adverse non-public information about the Company's business, operations, finances, accounting practices, accounting policies, products, markets and present and future business prospects, as particularized herein, including, without limitation, the fraud which the Individual Defendants caused Cree to engage in, by means of internal corporate documents, conversations or connections with other corporate officers or employees, attendance at Company management and/or Board of Directors meetings thereof, and via reports and other information provided to them in connection therewith.

15. In committing the wrongful and improper acts alleged herein, the Individual Defendants have pursued, or joined in the pursuit of, a common course of conduct, and acted in concert with and conspired with one another in furtherance of their common plan or design. In addition to the wrongful and improper conduct herein alleged as giving rise to primary liability, the Individual Defendants further aided and abetted and/or assisted each other in the breaching of fiduciary duties owed to Cree.

16. Each Individual Defendant had access to the undisclosed information alleged with particularity herein and knew or recklessly disregarded that this information rendered representations made by the Company regarding Cree's business materially false and misleading.

DERIVATIVE ALLEGATIONS

17. Plaintiff brings this action as a derivative action pursuant to Federal Rule of Civil Procedure 23.1 on behalf of and for the benefit of Cree.

18. Plaintiff will fairly and adequately represent the interests of Cree in enforcing and prosecuting its rights, and has retained competent counsel experienced in this type of litigation to prosecute this action.

19. Plaintiff made a demand on Cree's Board of Directors, asking that it pursue this litigation on June 24, 2003, more than ninety days before commencing this action. A copy of the demand is annexed as Exhibit 1. No response to that demand has been received by plaintiff to date.

FACTUAL ALLEGATIONS

20. On August 19, 1998, the Individual Defendants caused Cree to file its annual report on form 10-K (the "1998 10-K") with the SEC. The 1998 10-K contained, *inter alia*, the following statements regarding Cree's relationship with C3 Corporation, a company whose chairman, Jeff Hunter, is the brother of Cree chairman F. Neal Hunter:

> During fiscal 1998, the Company worked under development agreements with C3. C3 was founded to develop gemstone products from SiC [silicon carbide] crystals. ... The development agreement will enable the Company to perform further research in the creation of larger volume SiC crystals that may eventually be employed in other products. The Company also provides SiC crystals to C3 pursuant to an exclusive supply agreement.
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> In July 1997, the Company announced development and supply agreements with C3, to develop and supply bulk single crystal silicon carbide for gemstone applications. The development program included the development of improved processes for manufacturing colorless single crystalline SiC for use in gemstones with diamond-like characteristics. This research is particularly important as it also funds the development of larger diameter crystals. In addition to the development agreement, the company also entered into an exclusive supply agreement where the output of dedicated production was supplied and priced at cost plus a stipulated margin. ... In addition, C3 has agreed to pay the Company up to $3.4 million for the purchase of additional equipment to increase available capacity at Cree. Over one half of this equipment was billed to C3 during fiscal 1998, however this transaction was not recorded as revenue. Total revenue for materials used in gemstone applications increased 89% in fiscal 1998 as compared to 1997 as a result of these two agreements.

> Material purchased by C3 under the supply agreement may be used solely for the fabrication and sale of gemstones. During fiscal 1997 and 1996, the Company sold material products to C3 at margins consistent with those achieved in connection with sales of similar products to the Company's other customers.

21. On October 30, 1998, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended September 27, 1998 ("1Q99 10-Q") with the SEC. The 1Q99 10-Q reported record revenue and net income of $12,279,000 and $2,366,000 respectively, a 20% increase in revenue and a 102% increase in net income over the first quarter of 1998.

22. On January 28, 1999, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended December 28, 1998 ("2Q99 10-Q"). The 2Q99 10-Q reported a 39% increase in revenue, which was "attributable to an increase in product revenue of 57% from $8.2 million in the second quarter of fiscal 1998 to $12.8 million in the second quarter of fiscal 1999." According to the 2Q99 10-Q, a significant portion of this growth was due to sales of SiC materials to C3:

> Revenue attributable to sales of SiC materials was 88% higher in the second quarter of fiscal 1999 than in the same period of fiscal 1998 due to a significant increase in sales to C3 for gemstone applications. During the second quarter of fiscal 1998, C3 was in the initial stages of operation; therefore, unit sales were limited. Revenue from sales of SiC wafers increased 48% in the second quarter of fiscal 1999 as compared to the second quarter of fiscal 1998, due to quality improvements in wafers, along with the availability of the larger two-inch wafer during fiscal 1999.

23. On May 11, 1999, the Individual Defendants caused Cree to file its quarterly report on Form 10-Q for the period ended March 28, 1999 ("3Q99 10-Q"). The 3Q99 10-Q reported revenue growth of 50%, from $10.7 in the third quarter of fiscal 1998 to $16.0

million in the third quarter of fiscal 1999. According to the 3Q99 10-Q, a significant portion of this growth was due to sales of SiC to C3:

> Revenue attributable to sales of SiC materials was 47% higher in the third quarter of fiscal 1999 than in the same period of fiscal 1998. This greater revenue was a result of increased demand for gemstone materials from C3. C3 funded additional capacity at our manufacturing facility in early fiscal 1999, and as a result revenue from sales of gemstone materials increased. Also, revenue from our wafer business grew 23% from the third quarter of fiscal 1998 to the third quarter of fiscal 1999 due to a 24% rise in the number of wafers sold.

24. On August 12, 1999, the Individual Defendants caused Cree to file its annual report on Form 10-K for fiscal year 1999 ("1999 10-K") with the SEC. The 1999 10-K reported revenue growth of 41%, from $42.5 million in fiscal 1998 to $60.1 million in fiscal 1999:

> This increase was attributable to higher product revenue, which rose 53% from $34.9 million in fiscal 1998 to $53.5 million in fiscal 1999. This increase in product revenue was a result of thee 62% rise in sales of our LED products and 58% increase in materials revenue in fiscal 1999 compared to fiscal 1998, respectively.
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> * * *
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> Revenue attributable to sales of SiC materials was 58% higher in fiscal 1999 than in the same period of fiscal 1998 due to a significant increase in sales to C3 for gemstone applications and strong demand for wager products.

25. On November 4, 1999, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended September 26, 1999 ("1Q00 10-Q") with the SEC. The 1Q00 10-Q reported a 63% increase in net revenue over the first quarter of fiscal 1999. According to the 1Q00 10-Q, a significant portion of this growth was due to sales of SiC to C3:

> Revenue attributable to sales of SiC materials was 46% higher in the first quarter of fiscal 2000 than in the same period of fiscal 1999. The increased revenue was due to significant contributions made by the gemstone products and improvements in throughput and yield efficiency

in wafer production. Gemstone product sales have benefited from the added capacity provided under the C3 supply agreement. Wafer volume has also increased as the Company continues to be successful offering wafer products with lower defect densities, which enable customers to conduct advanced research for microwave power applications.

26. On December 10, 1999, the Individual Defendants caused the Company to file two registration statements on Form S-8 with the SEC, one for the registration of 300,000 shares of Cree common stock, and one for the registration of 4,800,000 shares of Cree common stock. Each of these registration statements incorporated by reference, *inter alia,* (a) the 1999 10-K; (b) the 1Q00 10-Q; and (c) the Company's Current Report on Form 8-K, filed with the SEC on July 13, 1999.

27. On January 14, 2000, the Individual Defendants caused the Company to file a Form 424B4 (the "January 2000 Prospectus") with the SEC, which reported that the company was offering 2,860,000 shares of common stock to the public. The January 2000 Prospectus reported that proceeds of the public offering would be used as follows:

> Approximately $50 million to $60 million will be used to fund the expansion and acquisition of facilities, as well as to purchase equipment; and the balance will be used for general corporate purposes, including working capital, research and development, and potential acquisitions of or investments in complementary businesses.

28. On January 31, 2000, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended December 26, 1999 ("2Q00 10-Q") with the SEC. The 2Q00 10-Q reported revenues of $23,930,000 for the second quarter of 2000, a 70% increase over the second quarter of 1999.

29. On April 25, 2000, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended March 26, 2000 ("3Q00 10-Q") with

the SEC. The 3Q00 10-Q reported a 77% increase in revenue, a 136% increase in earnings per share, and a 171% increase in net income over the year ago period.

30. On August 10, 2000, the Individual Defendants caused the Company to file its annual report on Form 10-K ("2000 10-K") with the SEC. The 2000 10-K reported an 82% increase in fourth quarter revenue over the fourth quarter of fiscal year 1999,and record revenue for the year of $108,562,000, a 74% increase over fiscal year 1999.

31. On September 27, 2000, the Individual Defendants caused the Company to file a definitive proxy statement on Form DEF 14A ("2000 Proxy Statement") with the SEC. The Proxy Statement contained, *inter alia,* the following information regarding the Company's relationship with C3:

> The Company is a party to certain agreements with Charles & Colvard, Ltd. (formerly C3, Inc. ("Charles & Colvard"), a customer of the Company engaged in the fabrication and sale of gemstones made from silicon carbide.
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> * * *
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> The Company supplies silicon carbide to Charles & Colvard pursuant to a supply agreement originally entered in 1995 and subsequently amended and restated. The agreement provides that the company will supply silicon carbide to Charles & Colvard on an exclusive basis for use in the fabrication of gemstones and that Charles & Colvard will purchase certain of its requirements for such material from the Company. ... Charles & Colvard purchased approximately $16.2 million in products and services from the Company under these agreements during the Company's fiscal year that ended June 25, 2000.
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> * * *
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> The Company and Charles & Colvard also executed agreements in 1998 and 1999 under which Charles & Colvard agreed to purchase equipment to be constructed by the Company and retained by the Company for use in manufacturing silicon carbide for sale to Charles & Colvard. Construction under these agreements was begun during fiscal 1998 and completed in fiscal 2000, at a total purchase price to Charles & Colvard of approximately $6.1 million, of which approximately $1.4 million was charged in fiscal 2000. In May 2000, the Company and Charles & Colvard executed an agreement under which the Company repurchased all of this equipment for a purchase price of $5.0 million, payable as a credit to be taken by Charles & Colvard against subsequent purchases of silicon

carbide from the company, with any unapplied balance due on June 30, 2001.

32. On November 3, 2000, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended September 24, 2000 ("1Q01 10-Q") with the SEC. The 1Q01 10-Q reported a 143% increase in earnings per share and an 80% increase in revenues for the first quarter of 2001 as compared to the first quarter of 2000.

33. On January 11, 2001, the Individual Defendants caused the Company to issue a press release entitled "Cree Reports Eighteen Consecutive Quarters of Profitability; Earnings Per Share Increased 125 Percent; Product Revenue Rose 70 Percent." The press release reported record quarterly revenue of $41,494,000 for the second quarter of 2001, a 67% increase over second quarter fiscal year 2000.

34. On February 2, 2001, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended December 24, 2000 ("2Q01 10-Q") with the SEC, which included the financial results previously announced on January 11, 2001.

35. On May 9, 2001, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended March 25, 2001 ("3Q01 10-Q"). The 3Q01 10-Q once again reported record revenue, a 29% increase over the record established the previous quarter and an 81% increase over the corresponding period in fiscal year 2000.

36. On August 27, 2001, the Individual Defendants caused the Company to file its annual report on Form 10-K ("2001 10-K") with the SEC. The 2001 10-K reported record annual revenue of $177,227,000, a 63% increase over fiscal year 2000.

37. On November 2, 2001, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended September 23, 2001 ("1Q02 10-Q") with the SEC. The 1Q02 10-Q reported revenues of $43,166,000, a 15% increase over first quarter fiscal year 2001 results.

38. On February 5, 2002, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended December 23, 2001 ("2Q02 10-Q") with the SEC. The 2Q02 10-Q reported revenues of $41,092,000.

39. On May 7, 2002, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended March 24, 2002 ("3Q02 10-Q") with the SEC. The 3Q02 10-Q reported revenues of $33,376,000.

40. On August 18, 2002, the Individual Defendants caused the Company to file its annual report on Form 10-K for fiscal year 2002 ("2002 10-K") with the SEC. The 2002 10-K reported annual revenue of $155,434,000 and adjusted net income of $15,796,000.

41. On October 29, 2002, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended September 29, 2002 ("1Q03 10-Q") with the SEC. The 1Q03 10-Q reported revenue of $48,811,000, a 13% increase over the comparable fiscal year 2002 period.

42. On January 31, 2003, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended December 29, 2002 ("2Q03 10-Q") with the SEC. The 2Q03 10-Q reported that Cree had attained its highest quarterly revenue in the Company's history, $56,727,000, a 38% increase over the comparable fiscal year 2002 period.

43. On April 29, 2003, the Individual Defendants caused the Company to file its quarterly report on Form 10-Q for the period ended March 30, 2003 ("3Q03 10-Q"). The 3Q03 10-Q once again reported record quarterly revenue of $60,223,000, which represented an 80% increase over the comparable fiscal year 2002 period.

44. The statements which the Individual Defendants caused Cree to file with the SEC contained in the above paragraphs were each materially false and misleading when made because they materially misrepresented and/or failed to disclose that: (a) the Company had materially overstated its net income and earnings per share; (b) Cree's operating income was artificially augmented by an undisclosed agreement between Cree and the brother of its' Chairman, who was then the Chairman of C3, that required C3 to accept shipments of SiC crystals for the manufacture of moissanite gemstones in excess of market demand; (c) the defendants failed to disclose in Cree's registration statements and prospectuses the actual use of the proceeds from those offerings; (d) the Company lacked adequate internal controls to monitor and evaluate the true financial value of the Company; (e) the Individual Defendants were actively concealing these facts in order to manipulate the Company's earnings outlooks, thereby maintaining favorable stock prices. These false and/or misleading disclosures caused the market price of Cree's common stock to be artificially inflated during the period.

45. On June 12, 2003, Eric Hunter, a founder and former Chief Executive Officer of Cree, filed a complaint in the United States District Court for the Middle District of North Carolina alleging, *inter alia,* securities fraud against Defendant F. Neal Hunter and Cree (the "Hunter Complaint"). In particular, the Hunter Complaint alleges that, beginning as early as August 1995 and continuing until at least May 2003, Cree, through its Chairman,

F. Neal Hunter, engaged in a series of undisclosed corporate activities, including, but not limited to:

a) Filing or causing to be filed false statements in public documents relating to secondary stock offerings;

b) Filing or causing to be filed public documents regarding Cree's anticipated earnings and revenue that omitted significant material facts in connection with secondary stock offerings;

c) Altering corporate books and records to mislead auditors and investors as to material facts in order to provide significantly higher income to certain officers and directors of Cree;

d) Entering into an undisclosed and long-term requirements contract with Jeff Hunter, Chairman of C3, which required C3 to accept shipments of silicon carbide crystals for the manufacture of moissanite gems far in excess of market demand, in order to artificially increase the operating income of Cree by forty percent or more, and artificially increase the per share value of Cree common stock;

e) Purchasing in excess of $4.0 million worth of equipment from C3 in which Cree already held a beneficial interest, with the understanding that C3's chairman would restrict use and allocation of the proceeds to payments under a long-term requirements contract, thereby disguising C3's severe cashflow deficit and forced inventory surplus of silicon carbide crystals.

46. Cree's stock plummeted on the news. Cree common stock, which had opened at $22.21, fell 18.51% to close at $18.10, after trading as low as $15.65 immediately following the announcement. Over 27 million shares were traded, more than 11 times the daily average of 2.4 million.

Defendants Sold Millions of Dollars Worth of Cree Stock at the Artificially Inflated Prices, Reaping Tens of Millions of Dollars in Profit at the Expense of Cree and its Shareholders

47. From August 19, 1998 until the truth began to emerge on June 12, 2003, Individual Defendants conducted the following sales of Cree stock:

Director

F. Neal Hunter

	Date	Shares	Proceeds
	09/03/99	70,000	$ 2,660,000
	11/22/99	35,000	$ 2,070,000
	05/03/00	45,000	$ 5,570,000
	09/01/00	45,000	$ 6,010,000
	06/01/01	10,000	$ 290,000
	08/08/01	150,000	$ 3,350,000
	05/15/02	148,000	$ 1,850,000
	09/06/02	80,000	$ 1,050,000
	11/14/02	150,000	$ 3,010,000
	02/07/03	130,000	$ 2,020,000
Total:		**863,000**	**$27,880,000**

Charles M. Swoboda

Date	Shares	Proceeds
08/31/99	2,500	$ 84,531
09/01/99	17,500	$ 113,614
11/29/99	20,000	$ 1,190,000
05/01/00	10,000	$ 64,922
08/14/00	20,000	$ 2,020,000
01/30/01	30,000	$ 1,080,000
08/14/01	30,000	$ 748,374
11/16/01	30,000	$ 734,001
11/26/02	20,000	$ 464,400

Total:		**180,000**	**$ 4,681,842**

John W. Palmour

	Date	Shares	Proceeds
	09/02/99	40,000	$ 1,490,000
	11/02/99	32,000	$ 1,800,000
	06/01/00	15,000	$ 1,950,000
	05/21/01	20,000	$ 717,000
	11/15/02	35,000	$ 710,850
	04/22/03	100,000	$ 2,050,000
Total:		**242,000**	**$ 8,717,850**

Dolph W. von Arx

	Date	Shares	Proceeds
	05/01/00	20,000	$ 2,740,000
	06/01/00	20,000	$ 2,690,000
	08/25/00	3,324	$ 461,043
	03/02/01	10,000	$ 213,750
	05/09/01	40,000	$ 1,150,000
	08/06/01	4,000	$ 102,960
	11/14/01	15,000	$ 355,300
	02/26/02	15,000	$ 228,562
	06/05/02	20,000	$ 227,450
	08/14/02	30,000	$ 425,497
	03/06/03	10,000	$ 165,400
	06/02/03	40,000	$ 1,030,000
Total:		**227,324**	**$ 9,789,962**

James E. Dykes

	Date	Shares	Proceeds
	09/01/99	9,000	$ 326,813
	06/02/00	7,000	$ 974,000
	10/28/02	5,000	$ 89,000
	11/04/02	1,000	$ 19,000
	05/05/03	20,000	$ 840,000
	05/12/03	20,000	$ 450,000
Total:		**62,000**	**$ 2,698,813**

Thus, five of the seven current directors of Cree, and all of the directors who served as members of Cree's board of directors at all times during the relevant period, personally profited from the artificial inflation of Cree's stock.

COUNT I
BREACH OF FIDUCIARY DUTY
(Against All Defendants)

48. Plaintiff repeats and realleges all preceding paragraphs as if set forth in full herein.

49. The defendants intentionally or recklessly breached their fiduciary duties and aided and abetted one another in breaching their fiduciary duties to Cree.

50. The defendants abused the trust placed in them by virtue of their positions as officers and/or directors of Cree by, in violation of their fiduciary duties of due care and/or loyalty to nominal defendant, harming the company by making or acquiescing in the making of numerous false and misleading statements regarding the Company and its business prospects for the purpose of inflating its stock trading price so that they could unload millions of dollars of Cree stock into the inflated market they had created.

51. By reason of the foregoing, defendants have caused the nominal defendant to suffer substantial damage, including some damages for which it has no adequate remedy at law. In addition, in taking the action complained of herein, defendants have acted with fraud, malice and oppression, thus entitling Cree to an award of punitive damages.

COUNT II
ABUSE OF CONTROL
(Against All Defendants)

52. Plaintiff repeats and realleges all preceding paragraphs as if set forth in full herein.

53. Defendants' conduct constituted an abuse of their ability to control and influence Cree for which all defendants are legally responsible.

54. By reason of the foregoing, defendants have caused the nominal defendant to suffer substantial damage, including some damages for which it has no adequate remedy

at law. In addition, in taking the action complained of herein, defendants have acted with fraud, malice and oppression, thus entitling Cree to an award of punitive damages.

COUNT III
WASTE OF CORPORATE ASSETS
(Against All Defendants)

55. Plaintiff repeats and realleges all preceding paragraphs as if set forth in full herein.

56. As a result of the conduct alleged herein, defendants have caused Cree to waste valuable assets.

57. By reason of the foregoing, defendants have caused the nominal defendant to suffer substantial damage, including some damage for which it has no adequate remedy at law. In addition, in taking the action complained of herein, defendants have acted with fraud, malice and oppression, thus entitling Cree to an award of punitive damages.

COUNT IV
INDEMNIFICATION
(Against All Defendants)

58. Plaintiff repeats and realleges all previous allegations as if set forth in full herein.

59. As heretofore outlined, the defendants sold millions of dollars of Cree stock into the inflated market they had created. They utilized their actual knowledge of the true business prospects of Cree and their knowledge of the falsity of the statements by which they had artificially inflated the trading price of Cree to their great benefit and to the detriment of the nominal defendant. This information belonged to and was the property of Cree.

60. Cree is entitled to indemnification for the use of this information that was its property, particularly since it was used to Cree's detriment.

WHEREFORE, plaintiff demands judgment as follows:

1. determining that this action is a proper derivative action under Federal Rule of Civil Procedure 23.1;
2. declaring that defendants have breached their fiduciary duties to Cree;
3. requiring the defendants to pay to Cree the amounts by which it has been damaged or will be damaged by reason of the conduct complained of herein;
4. requiring the defendants to remit to Cree all of the profit they made through selling their Cree shares into the inflated market they created;
5. requiring the defendants to repay all of their salaries and other compensation received for the periods when they breached their fiduciary duties;
6. requiring the defendants to pay statutory treble damages where applicable;
7. ordering that defendants and those under their supervision refrain from such further unlawful activities as are alleged herein and that they implement corrective measures including a system of internal controls and procedures sufficient to prevent the repetition of the acts complained of herein which will rectify all such wrongs as have been committed and prevent their reoccurrence;
8. granting a jury trial on all issues so triable and awarding pre and post judgment interest, attorney's fees, expert fees and other costs, in an amount to be determined; and
9. granting such other and further relief as the Court may find just and proper.

Dated: ~~October~~ November 3, 2003

DONALDSON & BLACK, P.A.

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June 24, 2003

Via Federal Express
Mr. F. Neal Hunter, Chairman
The Board of Directors
Cree Inc.
4600 Silicon Drive
Durham, North Carolina 27703

Re: Demand that you institute lawsuit on behalf of Cree Inc.

Dear Board of Directors:

This firm represents Walter John Taylor, who is a stockholder of Cree Inc. ("Cree" or the "Company") and has been for a number of years. This letter is intended to demand that you commence a lawsuit and take other appropriate legal action against F. Neal Hunter, Charles M. Swoboda, John W. Palmour, Dolph W. von Arx, James E. Dykes and any other individuals responsible for causing substantial harm to Cree as described below.

As you may know, on June 13, 2003, Cree announced that its former Chief Executive Officer, President and Chairman, Eric Hunter, filed a private action accusing the Company and current Chairman, F. Neal Hunter, of misleading investors and the Securities & Exchange Commission ("SEC") by issuing false press releases and filing false financial statements, and ignoring his warnings regarding the same. Several shareholder lawsuits followed, alleging, *inter alia,* that Cree's earnings releases and SEC filings during the period of at least July 24, 2001 through June 13, 2003 ("Class Period") were materially false and misleading because they failed to disclose that: (1) a material portion of the Company's revenues were generated from non "arms length" sales to related entities and therefore did not accurately reflect the true demand for the Company's products; (2) the Company failed to implement and maintain an adequate internal accounting control system; and (3) a material portion of Cree's reported sales during the Class Period were improperly recognized in the Company's financial statements, in violation of Generally Accepted Accounting Principles.

Further investigation reveals that during the Class Period, the individuals listed in paragraph one, all of whom are directors of the Company and therefore owe a fiduciary duty of loyalty to Cree's shareholders, profited from these material misrepresentations and/or omissions by selling shares of Cree at the artificially high prices that they had created. Collectively, these five individuals, who constitute five of the seven members of the Board of Directors of the Company, sold over one million shares of Cree stock during the Class Period for proceeds in excess of $20 million.

The individuals listed in paragraph one had an obligation to act in Cree's best interest and to ensure that they complied with their fiduciary duties, including their duties of loyalty and care, and their duty not to usurp corporate opportunities and not to engage in trading premised on insider information. Their failure to comply with those duties as outlined above has caused them to impermissibly profit, in violation of their fiduciary duties, and has caused and will cause Cree substantial damage and irreparable harm.

As stated above, this is a demand letter, the intention of which is to give you the opportunity of instituting claims on behalf of Cree against the individuals listed in paragraph one. If you fail to respond or contact me promptly, we will be forced to assume that you have decided not to pursue these claims and we will then feel free to institute an action in state or federal court to obtain the remedies we are asking you to obtain from the individuals listed in paragraph one.

If you have any questions concerning or wish to discuss any of the matters discussed above, please feel free to have your counsel contact me.

Very Truly Yours,

Richard B. Brualdi

/RBB
CC: Walter John Taylor

VERIFICATION

I, Walter John Taylor, verify under penalty of perjury that I owned shares of Cree, Inc. at relevant times as discussed in the foregoing complaint and that I am a class member. I also verify that I have reviewed the foregoing Complaint, and that I believe the allegations therein are true and correct.

Dated: October 14, 2003

Walter John Taylor